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C O N F I D E N T I A L SECTION 01 OF 03 GEORGETOWN 000141

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E.O. 12958: DECL: 01/06/2017  
TAGS: [EPET](#) [PREL](#) [ENRG](#) [PBTS](#) [XL](#) [VE](#) [GY](#)  
SUBJECT: GUYANA PREPARES FOR FIRST PETROCARIBE OIL DELIVERY  
  
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Classified by Ambassador David M. Robinson. Reason: 1.4 b  
and d.

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Summary:  
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¶1. (U) Petrocaribe is making its formal debut in Guyana in May amid unrealistic expectations. Optimistic Guyanese government leaders are prepared to reap its promised benefits but unprepared for the logistics and ramifications of doing business under the untested program. GoG officials also expect Venezuela to write off the 40 percent concessional financing. Meanwhile, Venezuela,s President Chavez may be paying a visit to Guyana in the near future and has invited Guyana,s President Jagdeo to take part in an Energy Conference in Caracas in April.

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A Deal Hard to Match and Too Good to Be True  
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¶2. (U) Guyana Energy Agency (GEA) CEO Joseph O,Lall signed the Petrocaribe bilateral contract January 23 in Caracas and is preparing for Guyana,s first delivery of PetroCaribe products in May. If it happens, the oil will come almost two years after Prime Minister Samuel Hinds signed the Petrocaribe energy cooperation agreement in September 2005.

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Hedging Bets  
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¶3. (C) Guyana plans to purchase 5,200 barrels of refined oil a day from Petrocaribe, roughly 50 percent of its requirements. The range of refined products will include diesel, gas, kerosene and fuel oil. O,Lall said he favored importing all of Guyana,s fuel needs under the plan, but Jagdeo and Prime Minister Hinds balked at the idea of putting "all of their eggs in one basket." The prime minister told the DCM that the government provided no advance notice to Trinidad and Tobago before signing the pact, but noted that Trinidad and Tobago is concerned about the new Petrocaribe dynamic. In addition to diversifying Guyana,s oil sources, O,Lall said that they wanted to maintain the country,s business relationship with Trinidad and Tobago, and, therefore, will split the country,s oil requirements between the two. Rodney Gun-Munro, ESSO,s lead country manager for Guyana and Suriname, underscored O,Lall,s concern, saying that

Trinidad and Tobago made it clear that if Guyana sources 100 percent of its oil needs via Petrocaribe, Trinidad and Tobago may not come to the rescue if Guyana encounters fuel sourcing issues in the future.

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Reliable Delivery -- Only Time Will Tell  
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¶4. (SBU) The delivery mechanism under Petrocaribe raises concerns for oil vendors: Under the plan, vendors in Guyana -- Texaco, Sol, Esso and parastatal Guyoil -- will send requirements and

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dates for pick up to GEA. GEA sends the order to PDVSA on the 10th of the month. April 10 is the date first Petrocaribe orders are due. The local companies will provide a three-day window for pickup at PDVSA Curacao refinery. The Guyana-based oil companies will pay GEA in local currency 30 days after the bill of lading is received.

¶5. (SBU) According to Gun-Munro, GEA did not solicit input from local oil companies before embarking on the Petrocaribe plan but companies were notified a week before press reports on the signing of the bilateral contract. He says the arrangement appears to be similar to how Guyana purchased oil from 1984 - 2002. Overall, ESSO is concerned about several issues: quality, delivery logistics and reliability. At present, Gun-Munro says ESSO has a very reliable supply contract in place with its affiliate Exxon-Mobil Trading, which now delivers the oil to Guyana. It appears that Venezuela will allow GEA to send a ship owned by a third party to retrieve and deliver the oil for ESSO orders. ESSO expects Exxon-Mobil Trading to continue to handle cargo transmission for its oil. At present, title will transfer to ESSO upon loading onto the vessel, but ESSO would like title to remain with its affiliate until it receives the oil at its facility. (Note: Usually Venezuela ships manage Petrocaribe oil delivery, but its tankers are too large to enter the shallow Demerara River where the oil companies, storage facilities are situated.)

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Complicating Factors -- International Financing Institutions  
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¶6. (C) Although uncertain of the specifics, both O,Lall and the prime minister said Petrocaribe financing calls for a 60 percent cash payment with the remainder being secured with a long-term, low-interest loan (2 percent interest or less depending upon the price of oil). O,Lall says he fully anticipates that Venezuela will write off the loan payment at some point. Guyana is part of the Highly Indebted Poor Countries (HIPC) initiative, and, according to O,Lall, under International Monetary Fund (IMF) conditionality rules, any loan agreement that Guyana takes out must have a grant component that cannot be less than 35 percent. There is also a ceiling stipulating how much Guyana can borrow, and Guyana is close to that ceiling. If Guyana should lose IMF conditionality, the country would essentially lose all Western loan sources, including the World Bank, IMF and the Interamerican Development Bank. (IMF ended its program in Guyana in September 2006 but is considering starting a new program.) According to the prime minister, before O,Lall signed the agreement, Minister of Finance Ashni Singh traveled to Venezuela separately to work out the financial formula that would ensure IMF conditions were preserved.

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Border Disputes  
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¶7. (SBU) The Guyana-Venezuelan political dynamic, which includes border disputes and a history of broken oil trade contracts, suggests that easy financing may come with its

own consequences. Venezuela has a long-standing border dispute with Guyana, claiming territory up to the Essequibo River. Entering into a highly subsidized oil contract could complicate Guyana,s negotiating position, should the dispute become active again. Prime Minister Samuel Hinds recently told the DCM that there hadn,t been any progress regarding the border dispute and added that when the government previously approached Venezuela about the purchase of oil, top-level Venezuelan leaders averred that exporting oil to Guyana,s Region 1 (a part of the region in dispute that is adjacent to Venezuela) would be inconsistent with Venezuela,s claim. Hinds thinks it will have to be resolved in a world court where he predicted the 1899 Paris Tribunal decision would be validated. On the other hand, O,Lall said he thought the border dispute issue was on the back burner for Venezuela but then suggested that Chavez is ready to sign an agreement stating the border issue has been settled.

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Affordable Energy Holds the Key  
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¶18. (C) O,Lall pointed out that providing affordable energy is the key to addressing Guyana,s status as a poor country, indicating a higher consumption of energy equals a higher standard of living. Guyana has a multitude of renewable energy sources, including wind, hydropower, solar, biomass, and bagasse. O,Lall was frustrated at the lack of commitment from government leaders regarding alternative energy development in general. Specifically, in regard to the Amalia Falls hydropower project, he commented that the politicians "can,t see beyond their noses." He urged U.S. Embassy assistance in encouraging Guyana leaders to push alternative energy development.

¶19. (SBU) The prime minister told the DCM that costly, but reliable, petroleum is Guyana,s best option for energy. He believes hydropower is not sufficiently attractive at this point, but conceded that as oil prices continue to rise, it does become more feasible. There are other factors to consider: With hydropower, for instance, there is the added responsibility of ensuring that communities in the region where hydropower is being developed -- primarily Amerindian villages -- are not flooded. The prime minister also noted that wind power is unpredictable at best.

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Comment: Short-sighted Solutions or Path to Further  
Collaboration?  
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¶10. (C) In the last 30 years, Guyana has bounced back and forth between Venezuela and Trinidad and Tobago as its primary source for oil imports. Since 2002, Trinidad and Tobago has been supplying the majority of Guyana,s oil needs. With oil prices skyrocketing in the last several years, the Petrocaribe offer proved too good to pass up, and so after watching and waiting as bilateral agreements with Jamaica, Belize and Suriname fell into place, Guyana finalized its own deal. But the end game may be to never pay back the 40 percent oil loan at all, as O,Lall revealed. In fact, the GoG prides itself on getting others to relinquish its debt obligations.

¶11. (C) (Comment continued): Meanwhile, according to press reports, the U.S. Geological Survey estimates that there could be as much as 15 billion barrels of oil resources in Guyana,s offshore waters -- a resource that could transform Guyana in unimaginable ways if its border dispute with Venezuela is resolved. The Petrocaribe deal positions Venezuela to collaborate with Guyana further in the exploration and refining of those resources. President Chavez has invited President Jagdeo to an Energy Conference scheduled to take

place in Venezuela in April. The two may have a lot to discuss.

Robinson